

26 September 2024

Ms Anna Collyer
Chair
Australian Energy Market Commission

By electronic submission – www.aemc.gov.au

Dear Ms Collyer,

Re: Response to Electricity Compensation Frameworks – Review Paper

Atmos Renewables (Atmos) welcomes the opportunity to provide feedback on the Australian Energy Market Commission's (AEMC) review paper on Electricity Compensation Frameworks, published in November 2023.

Atmos Renewables is a leading Australian renewable energy IPP with interests and ownership in over 1.8GW of wind and solar assets across all the NEM states. Atmos develops and invests in renewable energy and storage projects across the NEM and WEM at all stages of their lifecycle, including wind, BESS and solar.

Atmos is broadly supportive of the recommendations provided in the review paper, which should encourage participants to continue to provide supply during system stress while simplifying and consolidating the overall compensation framework. These proposed changes, coupled with the increase in the Administered Price Cap to \$600/MWh should provide more certainty and greater ease of market operation for AEMO during administered pricing and market suspension events.

Opportunity Costs should be considered in all frameworks

Atmos is supportive of the inclusion of opportunity costs in electricity compensation frameworks. The inclusion of opportunity costs will not only provide greater confidence of investment in generators and storage facilities and particularly for energy and/or cycle limited plant, but will also promote confidence in supplying hedging products, knowing that unavailability to defend hedged positions due to directions can be recovered through opportunity costs. This draft position will help to maintain and perhaps may even elevate liquidity in electricity derivatives, a lack of which was a major problem in the fall out of the events of June 2022.

The AEMC's review paper recommends that an independent expert review claims incorporating both direct and opportunity costs. While established technologies may have more robust methodologies for valuing these costs, newer technologies, such as batteries with daily and annual cycling constraints and average state of charge limitations, present valuation challenges. Atmos suggests that further efforts are necessary to provide clarity and transparency in valuing opportunity costs, which will benefit participants, AEMO, and any independent claim assessor.

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Costs of Capacity Directions should be recovered from consumers only.

Atmos Renewables is supportive of the AEMCs draft decision on the recovery of costs of capacity directions. Tilt Renewables' rule change request¹ and the AEMC's draft decision correctly identifies that consumers are the beneficiaries of increased security and reliability, and the associated costs borne by generators under the current arrangements may incentivise generators to withdraw supply, leading to worse reliability and security outcomes.

The initial rule change request reflected on the events of June 2022 where capacity directions were used to increase reliability at a later point in time, it is apparent that AEMO may need to take further action to manage minimum loads in the NEM for system security. While this may be done via a direction, it is currently not clear whether AEMO could simply achieve this by introducing constraints on scheduled loads or Integrated Resource Providers (energy storage systems, for example). Should AEMO use constraints alone (i.e. without an associated direction) to manage minimum loads on the network, those providing capacity would not be eligible for compensation under the current framework. If this were to play out, investor confidence in battery systems would suffer, as they would be using their cycle limited plant for system security rather than the efficient allocation of capacity in markets. Atmos recommends that clarity be provided regarding AEMO's ability to use constraints to manage system load and any consequences regarding compensation would be beneficial to industry.

\$0 Price Floor to Participant Compensation Fund Claims Rule Change

Atmos understands that Tilt Renewables had submitted a rule change request to the AEMC on 27 June 2023 addressing an issue related to negative prices and claims from the PCF² (Participant Compensation Fund). It would have seemed appropriate to consider this rule change whilst conducting a review of the electricity compensation frameworks. The rule change attempts to address problems associated with PCF claims due to the rise of negative price outcomes in the NEM.

There are problems with the current arrangements for PCF claims, particularly for semi-scheduled assets, as AEMO uses the bidding information which reflects the green certificate value of generating, hence semi-scheduled generators typically bid their volume in negative price bands. Given that the rules don't allow for compensation related to losses compared to contract position or green certificates, a \$0 floor on the spot price for PCF claims would be appropriate to reduce the losses suffered by a generator in the case of a scheduling error.

Atmos Renewables has previously been affected by a scheduling error where a semi-scheduled generator was over-constrained as determined by AEMO's NEMDE re-run. While other participants in different regions made a claim with the DRP, Atmos made the decision to withdraw its claim for compensation with the DRP as a result of negative prices in one particular region eroding the value of the claim. The NER currently requires AEMO to use the spot price inclusive of any spot price adjustments when considering the calculations associated with compensation claims from the PCF.

Atmos Renewables is supportive of the rule change request and recommends that the AEMC initiates the 'zero dollar energy price floor for Participant Compensation Fund claims.'

¹<https://www.aemc.gov.au/rule-changes/recovery-funds-capacity-directions>

²<https://www.aemc.gov.au/rule-changes/zero-dollar-energy-price-participant-compensation-fund-claims>

Atmos will be pleased to engage further with the AEMC on electricity compensation framework reform. For any enquiries on this submission please contact Rhys Albanese, Head of Markets & Performance, at rhys.albanese@atmosrenewables.com.au or 0423 423 797.

Yours sincerely,



Jason Porter
General Manager, Operations
Atmos Renewables

¹<https://www.aemc.gov.au/rule-changes/recovery-funds-capacity-directions>

²<https://www.aemc.gov.au/rule-changes/zero-dollar-energy-floor-price-participant-compensation-fund-claims>